

REPORT OF EXAMINATION

SAFECO LIFE INSURANCE COMPANY  
SAFECO NATIONAL LIFE INSURANCE COMPANY

Redmond, Washington

December 31, 1995

States Participating:

Delaware  
Ohio  
Washington

**SAFECO LIFE GROUP**

**CHIEF EXAMINER AFFIDAVIT**

I certify that I have reviewed the Report of the financial examination of SAFECO LIFE GROUP of Redmond, Washington as of December 31, 1995.

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Jacqueline L. Gardner, CFE, FLMI  
Chief Insurance Examiner

4/9/97  
(Date)

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Seattle, Washington  
April 2, 1997

The Honorable Glenn Pomeroy  
Chairman, NAIC Financial Condition(EX 4)  
Sub-Committee,  
North Dakota Department of Insurance  
600 East Boulevard Avenue  
Bismarck, ND 58505-0320

The Honorable Elizabeth Costle  
NAIC Secretary, Northeastern Zone  
Vermont Department of Insurance  
Department of Banking, Insurance  
& Securities, 89 Main Street  
Drawer 20, Montpelier, VT 05620-3101

The Honorable James H. Brown  
NAIC Secretary, Southeastern Zone  
Louisiana Department of Insurance  
P.O. Box 94214  
Baton Rouge, LA 70804-9214

The Honorable Mark Boozell  
NAIC Secretary, Midwestern Zone  
Illinois Department of Insurance  
320 West Washington Street, 4th Flr  
Springfield, IL 62767

The Honorable Deborah Senn  
Insurance Commissioner  
State of Washington  
Insurance Building  
P. O. Box 40255  
Olympia, WA 98504-0255

Dear Commissioners:

In accordance with your instructions and in compliance with statutory requirements, an Association examination has been made of the corporate affairs and financial condition of

SAFECO LIFE INSURANCE COMPANY  
SAFECO NATIONAL LIFE INSURANCE COMPANY  
of  
Redmond, Washington

and this report of examination is respectfully submitted showing the condition of the Companies as of December 31, 1995.

### **SCOPE OF EXAMINATION**

Insurance examiners from the states of Delaware, Ohio and Washington conducted an Association examination of the SAFECO Life Group, hereinafter referred to as "the Companies". That examination covers the period from January 1, 1991 through December 31, 1995. The examiners also reviewed significant transactions and events that occurred subsequent to the date of the examination. The previous examination of the SAFECO Life Group was conducted as of December 31, 1990 by examiners from the states of Georgia, Missouri, Oregon and Washington.

The full scope Association examination was made to assess the financial condition and corporate affairs of the Companies and to report any material, adverse findings. The examination was conducted in accordance with standards established by the National Association of Insurance Commissioners (NAIC) and statutes, rules and regulations of the state of Washington.

The examination was conducted concurrently with the Association examination of SAFECO Insurance Company of America, General Insurance Company of America, First National Insurance Company of America, and SAFECO Surplus Lines Insurance Company, affiliated companies domiciled in the state of Washington. In addition, concurrent Association examinations were made of SAFECO National Insurance Company, domiciled in the state of Missouri and SAFECO Insurance Company of Illinois, domiciled in the state of Illinois, by the respective domiciliary states.

Various aspects of the Companies' operating procedures and financial records were reviewed during the course of this examination as considered necessary. Asset valuations were verified and all known liabilities were substantiated. Comments and findings are included in this report under the appropriate captions.

Work papers of the Companies' independent auditors were utilized where possible in the testing and verification of account balances.

### **INSTRUCTIONS AND RECOMMENDATIONS**

In the review of liabilities, several amounts were inappropriately included in the general expenses, aggregate write ins, and remittances and items not allocated lines. The amounts were not material and no examination adjustment was necessary. However, it is recommended that the items included in those lines be reviewed in the future for appropriate reporting.

### **HISTORY AND CAPITALIZATION**

#### **SAFECO LIFE INSURANCE COMPANY (SAFECO Life):**

The Company was incorporated under the laws of the state of Washington on January 23, 1957 and began active business on April 5, 1957. Paid up capital of \$5,000,000 consists of 20,000 shares of authorized and outstanding common shares at \$250 par value. In 1991, Paid in and contributed surplus was increased by \$75,000,000 to a total of \$85,000,000.

#### **SAFECO NATIONAL LIFE INSURANCE COMPANY (National Life):**

The Company was incorporated under the laws of the state of Washington on September 4, 1979 and began active business on January 2, 1980. Paid up capital of \$2,000,000 consists of 20,000 shares of authorized and outstanding common shares at \$100 par value.

### **MANAGEMENT AND CONTROL**

National Life's stock is 100% owned by SAFECO Life. SAFECO Life's stock is 100% owned by SAFECO Corporation, a holding company incorporated under the laws of the state of Washington.

SAFECO Corporation, directly or indirectly, owns the stock of operating subsidiaries engaged in various phases of the insurance business and other financially related lines of business. The home offices of the Corporation and each of its principal subsidiaries are in Seattle, Washington, except for SAFECO Life and SAFECO National Life which have home offices in Redmond, Washington.

Each Company's Articles of Incorporation vest management and control of the Company in a Board of Directors which consists of not less than five nor more than thirty members. As of the examination date, there were nine board members. Directors and Officers serving each Company as of December 31, 1995 were:

<u>Directors</u>	<u>Principal Business Association</u>	<u>Residence</u>
Donald S. Chapman, Sr.	Senior Vice President, SAFECO Property and Casualty Companies	Woodinville, WA
Boh A. Dickey	Executive Vice President and Chief Financial Officer, SAFECO Corporation	Woodinville, WA
Roger H. Eigsti	Chairman, President and Chief Executive Officer, SAFECO Corporation	Bellevue, WA
Dan D. McLean	President, SAFECO Property and Casualty Companies	Mill Creek, WA
Rodney A. Pierson	Senior Vice President, Secretary and Controller, SAFECO Corporation	Redmond, WA
James W. Ruddy	Senior Vice President and General Counsel, SAFECO Corporation	Mercer Island, WA
Ronald L. Spaulding	Vice President and Treasurer, SAFECO Corporation	Mill Creek, WA
Robert W. Swegle	Vice President, SAFECO Corporation	Bellevue, WA
Richard E. Zunker	President, SAFECO Life Insurance Companies	Bellevue, WA

<u>Officers</u>	<u>Title</u>
Roger H. Eigsti,	Chairman of the Board
Richard E. Zunker	President
Boh A. Dickey	Executive Vice President
John P. Fenlason *	Senior Vice President
Roger F. Harbin **	Senior Vice President and Actuary
Rodney A. Pierson	Senior Vice President and Secretary
Frank G. Clarke *	Vice President
James T. Flynn, Jr.	Vice President, Assistant Secretary, and Controller
Irving R. Green *	Vice President
Michele Marie Kemper	Vice President
Michael J. Kinzer	Vice President and Chief Actuary
Michael C. Knebel	Vice President and Treasurer
Allie R. Mysliwy *	Vice President
George C. Pagos	Vice President, Assistant Secretary and Associate General Counsel
Craig J. Schmidt, MD. *	Vice President
Ronald L. Spaulding	Vice President
Malcolm S. Taylor *	Vice President
Michael R. Tucker *	Vice President

\* Vice President for SAFECO Life only

\*\* Senior Vice President for SAFECO Life only

## **CORPORATE RECORDS**

Minutes of the Board of Directors, Stockholders and Finance Committee meetings were reviewed for the period covered by this examination. Meetings were held as required and a quorum was present at each meeting.

### **AFFILIATED COMPANIES**

As a member of a holding company system, holding company statements are required and have been filed on an annual or as required basis with the Washington Insurance Commissioner's Office. The statements show the affiliates of the Companies and the ultimate controlling person.

The following Organizational Chart displays the relationship of each of the Companies to its affiliates and ultimate parent:

## ORGANIZATIONAL CHART

SAFECO CORPORATION  
WA \*

100%



\* State of Incorporation .



## **CONFLICT OF INTEREST**

The Companies have a policy for disclosing possible conflicts of interest to the Board of Directors. This is set forth in the Company's Policy on Ethical Standards, Conflicts of Interest and Compliance with the Laws. The policy statement is circulated to all employees annually. The Companies also obtain disclosure statements from new appointees during the interim period.

## **FIDELITY BOND AND OTHER INSURANCE**

The Companies are named insureds on various insurance policies that provide protection against certain property and liability losses. Policies providing property coverage for buildings and contents, comprehensive commercial general liability and automotive bodily injury and property damage coverage were in effect during the period covered by the examination.

Fidelity insurance is extended to all affiliated companies through a Financial Institution Bond which provides coverage up to \$3,000,000 aggregate with no deductible. The Companies carry excess insurance which provides an additional amount of coverage in layers through several carriers. The minimum amount of fidelity insurance coverage recommended by the NAIC for a company the size of the combined Life and Property and Casualty groups is \$4,000,000 to \$4,500,000. The coverage provided in the excess layers exceeds the amount recommended. In addition, the Companies carried Directors and Officers Liability and an Errors and Omissions policy.

## **TERRITORY AND PLAN OF OPERATION**

The management of the Life Companies within the SAFECO Group is substantially the same as that for all of the insurers within the group. The Companies share services with affiliated companies in the following areas: investment, state filings, legal, data processing, personnel and accounting.

### **SAFECO LIFE INSURANCE COMPANY:**

Sales operations of the Company are conducted through a combination of career agents, general agencies, property and casualty agents associated with its parent, and financial institutions. At December 31, 1995 there were 8,805 agents licensed to represent the Company. Agents generally report directly to the Company through 17 field offices. Each office covers assigned geographical areas. Field offices report through regional offices in Redmond, Washington and Chicago, Illinois.

Each field office has sales facilities. Members of the Home Office internal audit staff conduct regular internal audits of the regional offices to assure uniformity and understanding of procedures.

The Company retains one third-party administrator to pay claims and to perform certain other administrative functions related to its fully insured medical business. The Company employs four third-party administrators to facilitate the settlement of short-term disability claims in their local areas. Total payments made by the third-party administrators comprise less than 5% of the total short-term disability payments of the Company. The third-party administrators generally have authority to issue drafts in amounts that fall within preset limits, and are audited on a regular basis by a team of specialists from the Home Office.

The Company is authorized to write life and disability coverage in the District of Columbia and all states of the United States, except New York.

**SAFECO NATIONAL LIFE INSURANCE COMPANY:**

Operations of the Company are confined to administration of its inforce block of individual life business. No new business has been issued since the close of 1988. As of December 31, 1995 the Company had no plans to issue new business.

The Company is authorized to write life and disability coverage in the District of Columbia and all states of the United States, except Alaska, Hawaii, Iowa, Maine, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island, Vermont and Wyoming.

Certificates of Authority, permitting each Company to transact business in the named jurisdictions, were reviewed for the period under examination and were found to be in effect.

**GROWTH OF COMPANY**

The growth of the Companies for the past five years is reflected in the following exhibit prepared from filed annual statements and as adjusted by this examination:

(000's Omitted)

**SAFECO LIFE INSURANCE COMPANY**

<u>Year</u>	<u>Assets *</u>	<u>Liabilities *</u>	<u>Capital</u>	<u>Surplus</u>	<u>Premiums and Annuities</u>
1990	\$5,373,117	\$5,182,087	\$5,000	\$186,030	\$1,244,220
1991	6,395,803	6,078,218	5,000	321,525	1,320,804
1992	7,293,021	6,937,281	5,000	360,124	1,285,496
1993	8,228,307	7,856,110	5,000	377,878	1,310,303
1994	9,047,470	8,641,613	5,000	411,821	1,308,138
1995	10,162,468	9,670,756	5,000	499,683	1,351,828

**SAFECO NATIONAL LIFE INSURANCE COMPANY**

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Capital</u>	<u>Surplus</u>	<u>Premiums and Annuities</u>
1990	\$17,229	\$3,247	\$2,000	\$11,982	\$970
1991	18,152	2,857	2,000	13,295	920
1992	19,971	3,320	2,000	14,651	876
1993	19,958	3,731	2,000	14,227	809
1994	20,321	4,472	2,000	13,849	750
1995	20,144	4,622	2,000	13,522	733

\* Excluding Separate Account Business

## **REINSURANCE**

### **SAFECO LIFE INSURANCE COMPANY:**

The Company's use of reinsurance is minimal. Total reinsurance reserve credit for the year ended December 31, 1995 was \$19.6 million. Of this amount \$17.1 million was related to reinsurance of group long-term disability business and \$2.5 million was related to individual life business.

### **SAFECO NATIONAL LIFE INSURANCE COMPANY:**

No reinsurance contracts were in effect as of December 31, 1995.

## **WELFARE AND PENSION PLANS**

All employees of the SAFECO Group are treated as employees of SAFECO Insurance Company of America. The salaries and benefits accruing to those employees designated as Life Company employees, are allocated to the Life Companies.

The Companies have the following benefit plans available to its officers, employees and their dependents: Group Life Insurance, Accidental Death and Dismemberment, Long-term Disability and Medical and Dental. The Companies contribute to the Life, Medical and Dental plans.

The Companies have several retirement and profit sharing plans:

- Profit Sharing Bonus - The Company pays a cash bonus to all salaried employees who have completed one calendar year of service. Each year 10% of the 'adjusted underwriting profit' of the SAFECO Group earned during the previous year is allocated to the profit sharing bonus plan. A cash bonus is then paid to all eligible employees based on a percentage of the previous year's base salary. Currently, an employee with three or more calendar years of service may receive a maximum cash bonus of 10% of his or her previous year's salary.
- Profit Sharing Retirement Plan - A defined contribution plan established in 1943. Contributions are based on the SAFECO Group's profit, 5% of net profit before taxes and stockholder's dividends, after subtracting an amount credited to the Cash Balance Plan. The maximum contribution to the trust shall not exceed 12 percent of eligible compensation paid each year to all participants.
- Cash Balance Plan - A defined benefit plan established in 1989. The plan provides an annual credit to each employee's account, regardless of profitability of the Group. The amount is 3% of eligible compensation paid each year to all participants. Participants' balances are credited with interest at a 5% rate.
- Employees' Savings Plan - A defined contribution plan established in 1967. It is available to an employee after 12 calendar months of service. An employee may save up to 6% of basic salary. The Companies contribute an amount equal to two-thirds of the employee's deduction.

SAFECO Corporation has a stock option plan for executives and key employees. Stock issued is in SAFECO Corporation. In addition, two non-qualified benefit plans were established in 1989 for the Companies' contributions to the Profit Sharing Retirement Plan in excess of amounts allowed by the Internal Revenue Code.

SAFECO Insurance Company of America has a separate plan available to its independent agents and agencies. It is 100% funded by the agents and agencies and includes Group Life, Accidental Death and Dismemberment and Long-Term Disability.

### **SUBSEQUENT EVENTS**

Subsequent to the date of examination, no events occurred that would have a material effect on the financial condition of the companies under examination and no significant changes in company operations or personnel occurred. The Company expects no significant future changes in the plan of operation. A letter affirming this was obtained from James Flynn, Vice President and Controller of the Companies.

### **ACCOUNTS AND RECORDS**

The Companies' general ledger is prepared electronically and supported by a variety of special purpose journals and transaction registers. The Companies' accounting journals and transaction records are prepared on-site via a shared mainframe EDP system.

The Companies' securities ledger is maintained by the Portfolio Accounting and Management System (PAM).

The review of internal control records, questionnaires and reports prepared by management and the internal auditors revealed that, overall, internal control policies and procedures appear to be adequate. The group has a fully functioning internal audit department. The Internal Audit department develops a five year plan and updates it annually to ensure that risk exposures are reviewed at appropriate intervals. An internal control unit monitors the implementation of the internal audit recommendations.

The trial balance, which was prepared by the Company, was traced to the various schedules and exhibits of the filed 1995 Annual Statement without exception. In addition to this test, other detailed tests were conducted on the postings of revenue, expense, asset and liability transactions. Reviews of revenue included sample tests of receipts, deposits, identification of receipts sources, and postings to general ledger accounts. Underlying data matched receipts in the samples tested. Reviews of disbursements focused on checks and wire transfers. This review included an examination of original records and authorization of payments. Reviews of asset and liability transactions included tracing and vouching to detail transaction records and other original documentation.

The Companies are audited annually by an independent Certified Public Accounting firm and the work papers were used in the conduct of this examination to the extent possible.

### **FINANCIAL STATEMENTS**

The following financial statements show the condition of each Company as of December 31, 1995:

Comparative Balance Sheet

Comparative Summary of Operations and Comparative Reserves and Unassigned Funds Account

No examination adjustments were necessary.

Note: Failure of amounts to add to the totals on the following financial statements is due to truncation.

**SAFECO LIFE INSURANCE COMPANY**  
**COMPARATIVE BALANCE SHEET**  
**DECEMBER 31,**

<u><b>ASSETS</b></u>	<u><b>1995</b></u>	<u><b>1994</b></u>
Bonds At NAIC Amortized Value	\$8,993,864,679	\$8,017,501,629
Stocks:		
Preferred Stocks at Cost	124,957,959	25,863,875
Common Stocks at Association Market Value	39,584,390	32,803,490
Mortgage Loans on Real Estate	563,567,296	562,107,713
Real Estate:		
Properties Occupied by the Company	0	0
Properties acquired in satisfaction of debt	4,818,100	4,874,000
Investment real estate	153,473	274,533
Policy Loans	55,716,785	53,153,457
Cash on hand and on Deposit	38,092,443	48,901,245
Short Term Investments	61,967,832	37,874,846
Other Invested Assets	90,879,051	90,812,057
Aggregate Write-ins for Invested Assets	0	0
Subtotals, Cash and Invested Assets	\$9,973,602,008	\$8,874,166,845
Reinsurance ceded:		
Amounts recoverable from reinsurers	658,058	506,003
Experience rating and other refunds due	303,781	332,250
Electronic Data Processing Equipment	0	0
Federal Income Tax Recoverable	0	0
Life insurance premiums & annuity considerations deferred/uncollected	13,791,912	13,335,589
Accident and health premiums due and unpaid	10,103,525	9,521,335
Investment Income Due & Accrued	149,769,980	140,838,737
Receivable from Parent, Subsidiaries and Affiliates	1,608,114	1,220,273
Amounts Receivable Relating to Uninsured A&H Plans	0	0
Aggregate Write-ins for Other Than Invested Assets	12,630,661	7,549,213
Total Assets excluding Separate Accounts business	\$10,162,468,039	\$9,047,470,245
From Separate Accounts Statement	289,678,141	169,405,336
Total Assets	\$10,452,146,180	\$9,216,875,581

**SAFECO LIFE INSURANCE COMPANY**  
**COMPARATIVE BALANCE SHEET**  
**DECEMBER 31,**

<b><u>LIABILITIES, SURPLUS &amp; OTHER FUNDS</u></b>	<b><u>1995</u></b>	<b><u>1994</u></b>
Aggregate reserve for life policies and contracts	\$8,471,042,875	\$7,730,870,705
Aggregate reserve for Accident and Health policies	22,732,048	25,668,394
Supplementary contracts without life contingencies	1,325,051	1,572,388
Policy and contract claims: Life	11,159,002	10,339,324
Policy and contract claims: Accident and Health	14,413,715	18,098,526
Policyholders' dividend and coupon accumulations	193,035	187,585
Policyholders' dividends due and unpaid	0	0
Provision for policyholders' dividends and coupons payable in following calendar year:		
Dividends apportioned for payment to 12/31/96	11,240	11,314
Premiums and annuity considerations received in advance	513,912	520,474
Liability for premium and other deposit funds:		
Policyholder premiums	5,778	7,731
Guaranteed interest contracts	204,602,367	187,514,418
Other contract deposit funds	347,051,789	363,905,002
Policy and contract liabilities not included elsewhere:		
Interest Maintenance reserve	67,960,314	59,639,095
Commissions to agents due or accrued	10,591,675	11,449,738
Commissions & expense allowances payable on reinsurance assumed	24,479	70,614
General Expenses due or accrued	9,870,246	8,534,459
Transfers to Separate Accounts due or accrued	(1,578,957)	0
Taxes, Licenses & Fees (Excluding Federal Income Taxes)	492,648	458,150
Federal and Foreign Income Taxes due or accrued	12,697,174	12,362,142
Cost of Collection on premiums deferred in excess of loading	1,386,334	1,337,230
Unearned investment income	898,547	845,162
Amounts Withheld or retained by company as agent or trustee	0	0
Amounts held for agents' account	128,609	111,251
Remittances and items not allocated	241,760,465	24,029,668
Dividends to Stockholders Declared and Unpaid:	1,000,000	1,000,000
Miscellaneous liabilities:		
Asset Valuation Reserve	89,448,998	70,311,314
Payable to Parent, Subsidiaries and Affiliates	3,672,926	3,252,456
Aggregate Write-ins for Liabilities	159,351,831	109,515,644
Total Liabilities excluding Separate Accounts	\$9,670,756,101	\$8,641,612,784
From Separate Accounts Statement	276,707,170	158,441,346
Total Liabilities	\$9,947,463,271	\$8,800,054,130
Common Capital Stock	\$5,000,000	\$5,000,000
Gross Paid In and Contributed Surplus	85,000,000	85,000,000
Aggregate Write-ins for Special Surplus Funds	0	0
Unassigned Funds (Surplus)	414,682,909	326,821,451
Surplus as Regards Policyholders	\$504,682,909	\$416,821,451
Total Liabilities, Capital and Surplus	\$10,452,146,180	\$9,216,875,581

**SAFECO LIFE INSURANCE COMPANY**  
**COMPARATIVE INCOME STATEMENTS**  
**DECEMBER 31,**

**SUMMARY OF OPERATIONS**

	<u><b>1995</b></u>	<u><b>1994</b></u>
Premiums and Annuity Considerations	\$1,152,012,947	\$1,225,160,470
Deposit-type funds	199,814,973	82,977,322
Considerations for Supplementary contracts w/o Life contingencies	137,629	185,309
Net Investment Income Earned	775,533,710	703,870,968
Amortization of Interest Maintenance Reserve	1,375,170	107,114
Commissions and expense allowances on reinsurance ceded	52,662	209,604
Reserve adjustments on reinsurance ceded	96,672	823,138
Aggregate Write-ins for Miscellaneous Income	6,407,422	5,162,099
Totals	<u>\$2,135,431,185</u>	<u>\$2,018,496,024</u>
Death Benefits	51,596,058	47,934,953
Matured Endowments	107,283	111,792
Annuity benefits	325,318,800	285,146,483
Disability benefits & benefits under Accident & Health policies	96,512,571	96,645,649
Surrender benefits and other fund withdrawals	528,185,581	488,300,895
Interest on policy or contract funds	37,282,205	42,222,010
Payments on Supplementary contracts w/o Life contingencies	467,827	261,593
Increase in aggregate reserves for life & accident & health	737,235,826	884,361,509
Increase in liability for premium and other deposit funds	(35,622,656)	(159,244,384)
Increase in reserve for supplementary contracts without life contingencies	(241,887)	16,617
Totals	<u>\$1,740,841,608</u>	<u>\$1,685,757,117</u>
Commissions on premiums and annuity considerations	78,962,028	84,600,898
Commissions & expense allowances on reinsurance assumed	(6,126)	(4,804)
General Insurance expenses	78,147,177	77,613,973
Insurance taxes, licenses and fees	13,704,695	14,059,762
Increase in loading on deferred & uncollected premiums	9,918	(78,790)
Net transfers to (from) Separate Accounts	65,897,454	50,675,706
Aggregate Write-ins for Deductions	0	0
Totals	<u>\$1,977,556,754</u>	<u>\$1,912,623,862</u>
Net Gain from operations Before Dividends to Policyholders & FIT	157,874,431	105,872,162
Dividends to Policyholders	11,598	11,509
Net Gain from operations After Policyholders Dividends Before FIT	<u>157,862,833</u>	<u>105,860,653</u>
Federal and Foreign Income Taxes Incurred	53,383,276	54,827,434
Net gain from operation after FIT & before realized gains	<u>104,479,557</u>	<u>51,033,219</u>
Net Realized Capital Gains or (Losses)	<u>(3,023,755)</u>	<u>(3,752,972)</u>
Net Income	<u>\$101,455,802</u>	<u>\$47,280,247</u>
	\$0	

<b>CAPITAL AND SURPLUS ACCOUNT</b>	<u><b>1995</b></u>	<u><b>1994</b></u>	<u><b>1993</b></u>	<u><b>1992</b></u>	<u><b>1991</b></u>
Surplus as Regards Policyholders, Dec 31 Prior Year	\$416,821,451	\$382,877,562	\$365,123,581	\$326,524,730	\$191,030,226
Net Income	101,455,802	47,280,247	17,723,732	29,114,848	43,661,275
Change in Net Unrealized Capital Gains or (Losses)	6,763,431	6,058,326	29,815,230	28,379,742	(33,206,399)
Change in Non-Admitted Assets	772,928	1,461,544	(645,306)	(1,297,195)	(1,708,993)
Change in Provision for Reinsurance	0	0	0	0	0
Change in reserve on account of change in valuation basis	0	0	0	0	0
Change in Asset Valuation Reserve	(19,137,684)	(17,140,461)	(26,435,383)	(14,042,366)	50,808,394
Change in Treasury Stock	0	0	0	0	0
Change in surplus in Separate Accounts Statement	2,006,981	284,233	1,295,708	443,822	8,940,227
Capital Changes:	0	0	0	0	0
Surplus Adjustments:	0	0	0	0	75,000,000
Dividends to Stockholders (cash)	(4,000,000)	(4,000,000)	(4,000,000)	(4,000,000)	(2,000,000)
Aggregate Write-ins for Gains and Losses in Surplus	0	0	0	0	(6,000,000)
Change in Surplus as Regards Policyholders for the Year	<u>87,861,458</u>	<u>33,943,889</u>	<u>17,753,981</u>	<u>38,598,851</u>	<u>135,494,504</u>
Surplus as Regards Policyholders, Dec 31 Current Year	<u>\$504,682,909</u>	<u>\$416,821,451</u>	<u>\$382,877,562</u>	<u>\$365,123,581</u>	<u>\$326,524,730</u>

**SAFECO NATIONAL LIFE INSURANCE COMPANY**  
**COMPARATIVE BALANCE SHEET**  
**DECEMBER 31,**

<u><b>ASSETS</b></u>	<u><b>1995</b></u>	<u><b>1994</b></u>
Bonds At NAIC Amortized Value	\$19,497,982	\$19,579,193
Stocks:	0	0
Real Estate:	0	0
Policy Loans	92,122	73,647
Cash on hand and on Deposit	19,320	23,061
Short Term Investments	0	0
Subtotals, Cash and Invested Assets	<u>\$19,609,424</u>	<u>\$19,675,901</u>
Federal Income Tax Recoverable	0	0
Life insurance premiums & annuity considerations deferred & uncollected	137,542	139,342
Investment Income Due & Accrued	369,038	428,183
Receivable from Parent, Subsidiaries and Affiliates	5,500	59,935
Aggregate Write-ins for Other Than Invested Assets	22,163	17,709
Total Assets	<u><u>\$20,143,667</u></u>	<u><u>\$20,321,070</u></u>
<u><b>LIABILITIES, SURPLUS &amp; OTHER FUNDS</b></u>	<u><b>1995</b></u>	<u><b>1994</b></u>
Aggregate reserve for life policies and contracts	\$3,265,597	\$3,052,158
Policy and contract claims: Life	20,000	28,147
Premiums and annuity considerations received in advance	5,917	4,366
Liability for premium and other deposit funds:		
Policyholder premiums	3,355	3,889
Policy and contract liabilities not included elsewhere:		
Interest Maintenance reserve	220,760	232,314
Commissions to agents due or accrued	620	883
General Expenses due or accrued	4,991	3,393
Taxes, Licenses & Fees (Excluding Federal Income Taxes)	15,415	16,537
Federal and Foreign Income Taxes due or accrued	179,606	91,492
Commissions to agents due or accrued	187	1,910
Unearned investment income	3,865	2,956
Amounts Withheld or retained by company as agent or trustee	0	0
Amounts held for agents account	1,213	1,231
Remittances and items not allocated	301	10,090
Miscellaneous liabilities:		
Asset Valuation Reserve	183,119	168,767
Payable to Parent, Subsidiaries and Affiliates	672,206	851,216
Aggregate Write-ins for Liabilities	44,717	2,804
Total Liabilities	<u>\$4,621,869</u>	<u>\$4,472,153</u>
Common Capital Stock	\$2,000,000	\$2,000,000
Gross Paid In and Contributed Surplus	5,000,000	5,000,000
Unassigned Funds (Surplus)	8,521,798	8,848,917
Surplus as Regards Policyholders	<u>\$15,521,798</u>	<u>\$15,848,917</u>
Total Liabilities, Capital and Surplus	<u><u>\$20,143,667</u></u>	<u><u>\$20,321,070</u></u>



**SAFECO NATIONAL LIFE INSURANCE COMPANY**  
**COMPARATIVE INCOME STATEMENTS**  
**DECEMBER 31,**

**SUMMARY OF OPERATIONS**

	<u><b>1995</b></u>	<u><b>1994</b></u>
Premiums and Annuity Considerations	\$732,726	\$750,294
Deposit-type funds	0	
Considerations for Supplementary contracts without Life contingencies	0	
Net Investment Income Earned	1,683,520	1,692,370
Amortization of Interest Maintenance Reserve	(18,214)	1,197
Aggregate Write-ins for Miscellaneous Income	301,250	185,500
Totals	<u>\$2,699,282</u>	<u>\$2,629,361</u>
Death Benefits	223,068	276,491
Disability benefits and benefits under Accident and Health policies	8,685	2,320
Surrender benefits and other fund withdrawals	81,999	62,782
Interest on policy or contract funds	734	879
Payments on Supplementary contracts without Life contingencies	0	
Increase in aggregate reserves for life & accident & health policies	213,439	177,111
Increase in liability for premium and other deposit funds	0	
Increase in reserve for supplementary contracts without life contingencies	0	0
Totals	<u>\$527,925</u>	<u>\$519,583</u>
Commissions on premiums and annuity considerations	43,869	46,275
General Insurance expenses	82,101	82,405
Insurance taxes, licenses and fees	69,798	84,345
Increase in loading on deferred and uncollected premiums	(10)	(1,420)
Aggregate Write-ins for Deductions	0	0
Totals	<u>\$723,683</u>	<u>\$731,188</u>
Net Gain from operations Before Dividends to Policyholders & FIT	1,975,599	1,898,173
Dividends to Policyholders	0	
Net Gain from operations After Policyholders Dividends Before FIT	1,975,599	1,898,173
Federal and Foreign Income Taxes Incurred	788,366	656,509
Net gain from operation after FIT and before realized gains	1,187,233	1,241,664
Net Realized Capital Gains or (Losses)	0	0
Net Income	<u>\$1,187,233</u>	<u>\$1,241,664</u>
	\$0	

**CAPITAL AND SURPLUS ACCOUNT**

	<u><b>1995</b></u>	<u><b>1994</b></u>	<u><b>1993</b></u>	<u><b>1992</b></u>	<u><b>1991</b></u>
Surplus as Regards Policyholders, Dec 31 Prior Year	\$15,848,917	\$16,227,426	\$16,651,101	\$15,295,044	\$13,982,306
Net Income	1,187,233	1,241,664	1,192,212	1,369,834	1,184,776
Change in Net Unrealized Capital Gains or (Losses)	0				
Change in Non-Admitted Assets	0	19	(102)	22	22
Change in Provision for Reinsurance	0	0	0	0	0
Change in reserve on account of change in valuation basis	0				
Change in Asset Valuation Reserve	(14,352)	(20,192)	(15,785)	(13,799)	127,940
Change in Treasury Stock	0				
Change in surplus in Separate Accounts Statement	0		0	0	0
Capital Changes:			0	0	0
Surplus Adjustments:			0	0	0
Dividends to Stockholders (cash)	(1,500,000)	(1,600,000)	(1,600,000)	0	0
Aggregate Write-ins for Gains and Losses in Surplus	0	0	0	0	0
Change in Surplus as Regards Policyholders for the Year	<u>(327,119)</u>	<u>(378,509)</u>	<u>(423,675)</u>	<u>1,356,057</u>	<u>1,312,738</u>
Surplus as Regards Policyholders, Dec 31 Current Year	<u>\$15,521,798</u>	<u>\$15,848,917</u>	<u>\$16,227,426</u>	<u>\$16,651,101</u>	<u>\$15,295,044</u>

## **NOTES TO FINANCIAL STATEMENTS**

### **1. ACCOUNTING POLICIES**

The accompanying financial statements have been prepared in conformity with statutory accounting principles or with accounting practices prescribed or permitted by the Washington Office of the Insurance Commissioner. Such practices vary from generally accepted accounting principles (GAAP). The more significant variances from GAAP are as follows:

***Investments:*** Investments in bonds are reported at amortized cost or market value based on the National Association of Insurance Commissioners (NAIC) rating. For GAAP, such fixed maturity investments are designated at purchase as held-to-maturity, trading, or available-for-sale. The Companies' fixed maturities were designated as either held to maturity or available-for-sale under GAAP. Those fixed maturities designated as held to maturity are reported at amortized cost, and the fixed maturities designated as available for sale are reported at fair value with unrealized holding gains and losses reported as a separate component of stockholders' equity.

Market value of certain investments in bonds and stocks are based on values specified by the NAIC. This may or may not be the same as actual or estimated market values. The difference between book value and the admitted asset investment values is credited or charged directly to unassigned surplus. These unrealized gains or losses are also included in the calculation of the Asset Valuation Reserve. This reserve is calculated based on a formula prescribed by the NAIC and acts to mitigate the effects on unassigned surplus of fluctuations in gains and losses on invested assets.

***Nonadmitted Assets:*** Certain assets are designated as "nonadmitted". Principally computer software is excluded from the accompanying statutory balance sheets and is charged directly to unassigned funds.

## **ACKNOWLEDGMENT**

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of the Companies during the course of this examination.

In addition, Laura A. Young, AFE, Examiner-in-Charge, Frank Ebreo, FLMI, AFE; Lisa Kelly; Martin Severeid, CIE; and Kevin Thomas; all from the Washington Insurance Commissioner's Office, Darryl Reese, CIE, CFE, State of Delaware, representing the NAIC Northeastern Zone, William A. Brooks, CFE, State of Ohio, representing the NAIC Midwestern Zone, participated in the examination and the preparation of this report.

**AFFIDAVIT OF EXAMINER IN CHARGE**

STATE OF WASHINGTON    )  
  ) ss  
COUNTY OF KING         )

Laura A. Young, being duly sworn, deposes and says that the foregoing report subscribed by her is true to the best of her knowledge and belief.

She attests that the examination of SAFECO Life Insurance Company and SAFECO National Life Insurance Company was performed in a manner consistent with the standards and procedures required or prescribed by the Washington Office of the Insurance Commissioner and the National Association of Insurance Commissioners (NAIC).

\_\_\_\_\_  
Laura A. Young, AFE  
Examiner-in-Charge  
State of Washington

Subscribed and sworn to before me this 9<sup>th</sup> day of April, 1997.

\_\_\_\_\_  
Notary Public in and for the  
State of Washington, residing  
at Seattle.